

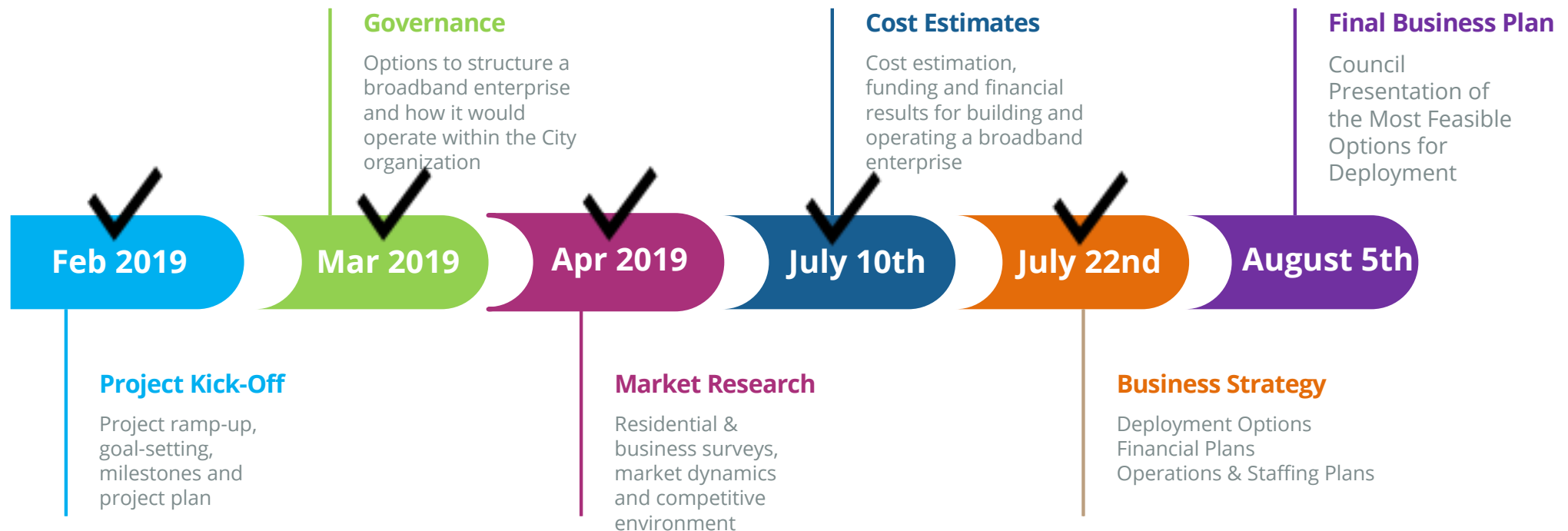
# City of Lakeland Broadband Business Plan

## Presentation to City Council

August 5, 2019



# Broadband Business Plan Project Timeline



# Deployment Options

## Fiberhoods

1

Service available based on number of customers that sign-up in each area

- 3-5 Years
- Up to 20,000 Homes & Businesses

## Citywide

2

Service available to homes and businesses in the City limits

- 3-5 Years
- Up to 44,000 Homes & Businesses

## Citywide + County

3

Service available to homes and businesses in the City limits and County

- 3-7 Years
- Up to 112,000 Homes & Businesses

# Key Assumptions in Each Option

- FIOS overbuild is optional in all models
- Triple-play services offered in all models
- 38% residential take rate, 41% commercial take rate
- Year 1: Engineering, funding, organizational structure, key hires
- Year 2: Construction, building operations, main hiring
- End of Year 2: First services available
- Years 3 – Beyond: Additional construction phases, operational scaling
- Standard pricing based on market research
- O&M costs estimated with annual escalators
- Staffing costs using industry standard rates, plus a 35% overhead (Lakeland's rate)
- Renewal and replacement – 7, 10, 20 and 25 year cycles based on asset lifetime
- Financing: 20 year, annual payment of P&I, 4% rate, 1% cost of issue
- Reserves: Operating reserves set as a percent of revenue

# Key Assumptions in Each Option

Operations	Insource	Outsource
General Management	✓	
Engineering		✓
Project & Construction Management		✓
Call Center	✓	
Customer Service	✓	
Billing	✓	
Finance & Accounting	✓	
Sales & Marketing	✓	✓
Plant & Equipment Maintenance		✓
Warehousing & Inventory Management		✓
Customer Installations		✓

# Services & Pricing (38% Expected Take Rate, Triple-Play Services)

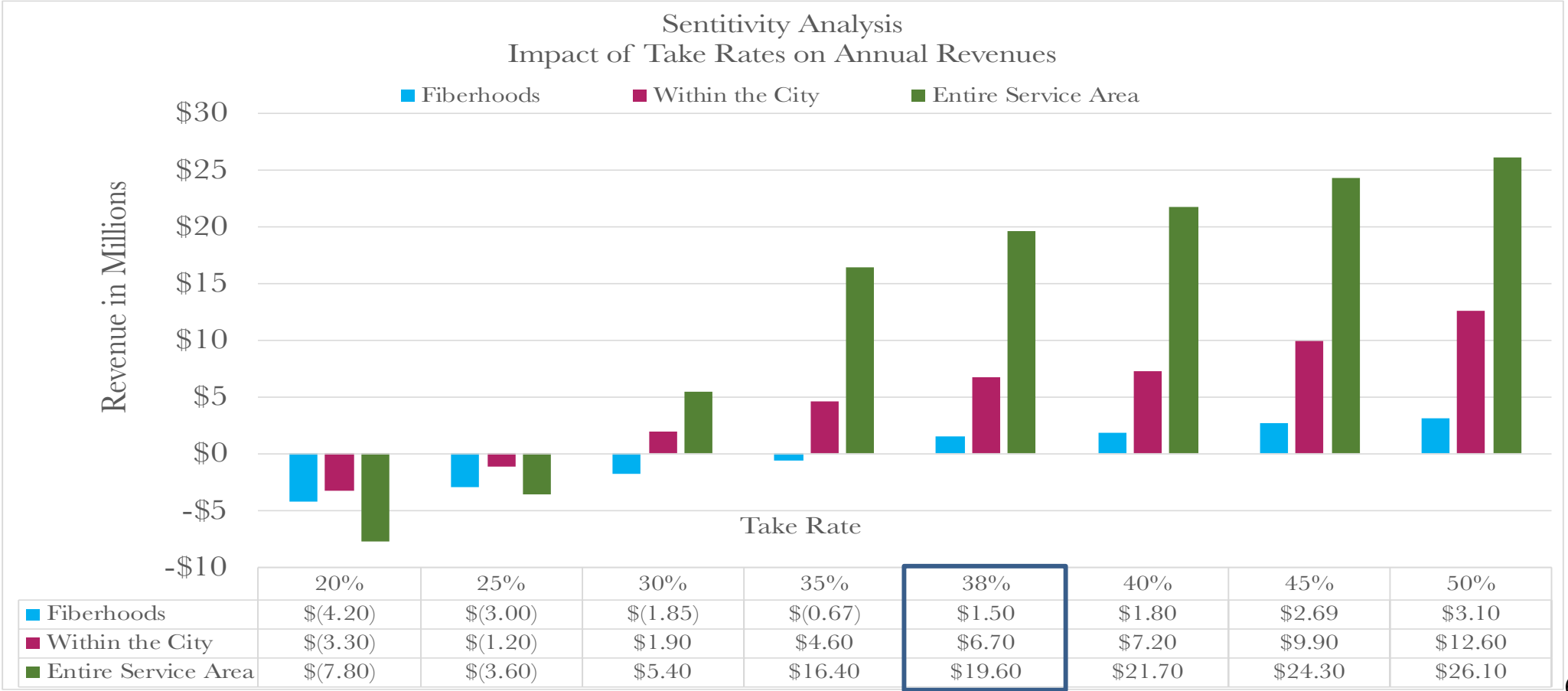
Services	Monthly Price
Internet Only	
25 Megabit	\$19.99
200 Megabit	\$49.99
400 Megabit	\$59.99
1 Gigabit	\$99.99
Double-Play Value (200 Megabit Internet + Basic Television)	\$74.99
Double-Play Preferred (400 Megabit Internet + Expanded Digital Favorites Television)	\$134.99
Double-Play Premium (1 Gigabit Internet + Premium Television)	\$164.99
Triple-Play Value (200 Megabit Internet + Basic Television + Home Phone)	\$119.99
Triple-Play Standard (400 Megabit Internet + Expanded Digital Favorites Television + Home Phone)	\$174.99
Triple-Play Premium (1 Gigabit Internet + Premium Television + Home Phone)	\$199.99

*Excludes taxes & fees. Taxes and fees for City broadband services will be at the same levels as what the competition passes through to customers today*

# Financial Results – Comparing the Three Options (38% Expected Take Rate, Triple-Play Services)

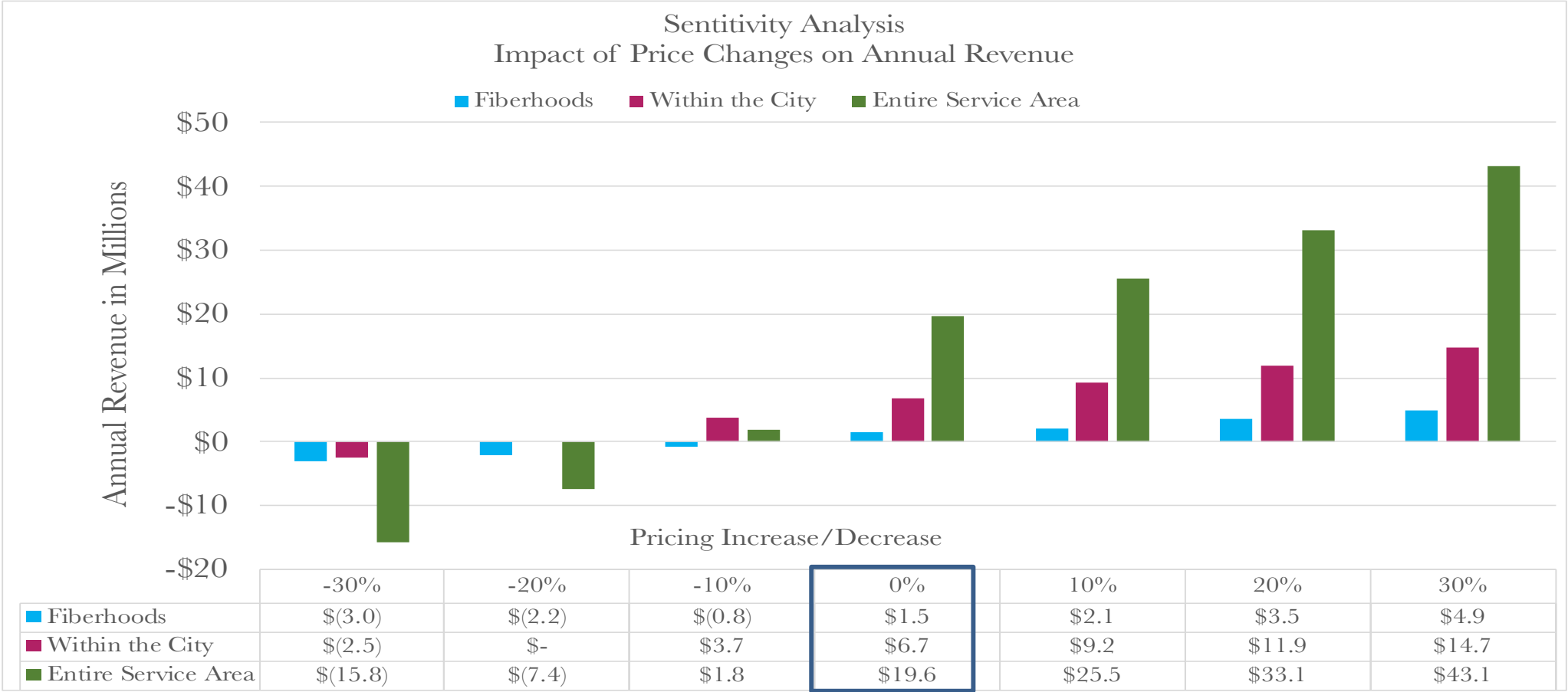
Financial Metrics	Fiberhoods	Within the City (No FIOS)	Within the City (With FIOS)	Entire Service Area
Total Investment	\$51,257,896	\$89,500,000	\$96,844,759	\$226,556,691
Revenues Exceed Expenses	4-7 Years	4-6 Years	4-7 Years	9-10 Years
Annual New Revenue to the City	\$1,500,000	\$6,700,000	\$10,500,000	\$18,900,000

# Sensitivity Analysis – Take Rate Adjustments





# Sensitivity Analysis – Price Adjustment



# Financial Results – Other Options To Consider

- Could the City offer other options?
  1. Internet and phone only, no television
  2. Aggressively priced gigabit internet and phone only
- Why?
  - Some communities provide only internet and phone without television
  - Pros: less complex, lower operational costs
  - Cons: lower take rates, incomplete packages
- Another alternative
  - Some communities provide low priced gigabit internet and phone
  - Pros: drives higher take rates, promotes digital equity
  - Cons: Higher take rates must offset lower prices to be sustainable

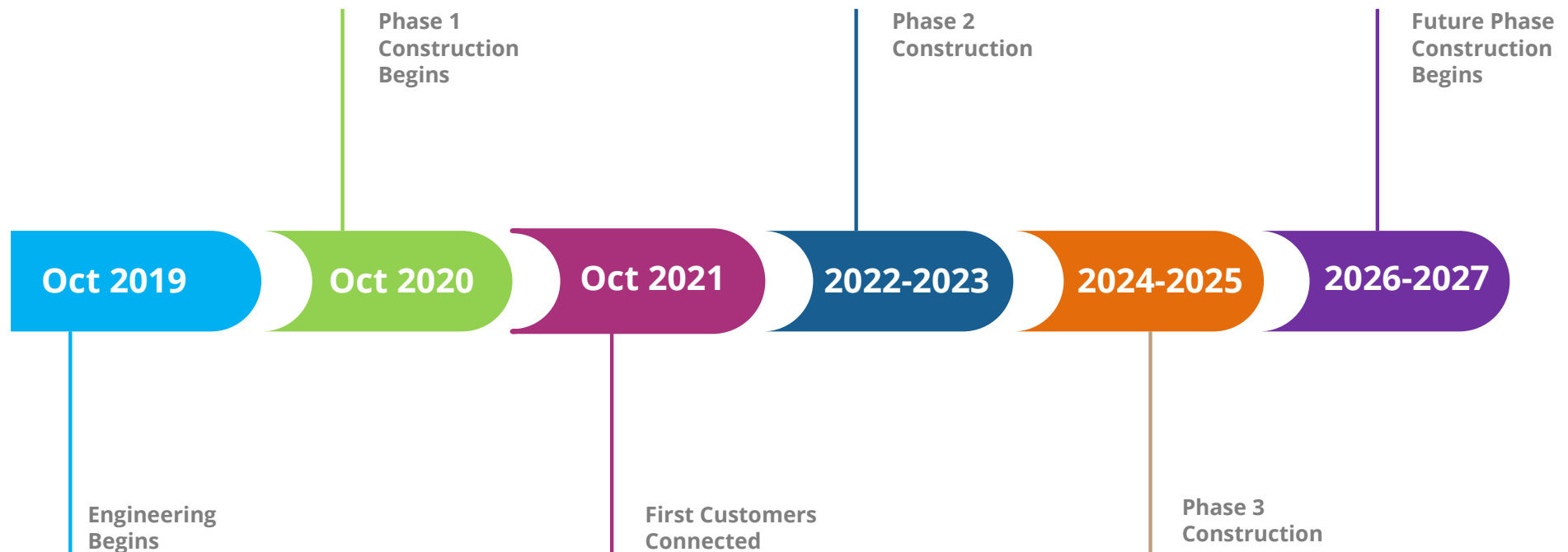
# Financial Results – Other Options

<b>Financial Metrics</b>	<b>Within the City (No FIOS) ORIGINAL</b>	<b>Internet &amp; Voice Only (No Television)</b>	<b>Gigabit Founding Member (Longmont Model)</b>
Expected Take Rate	38.07%	30%	60%
Total Investment	\$89,500,000	\$95,000,000	\$95,000,000
Revenues Exceed Expenses	4-6 Years	4-7 Years	8-9 Years
Annual New Revenue to the City	\$13,000,000	\$5,500,000	\$5,500,000

## Financial Results – Comparing the Three Options (38% Expected Take Rate)

<b>Investment Category</b>	<b>Fiberhoods</b>	<b>Within the City (No FIOS)</b>	<b>Within the City (Adding FIOS)</b>	<b>Entire Service Area</b>
Service Area	20,000 Homes & Businesses	35,000 Homes & Businesses	44,000 Homes & Businesses	96,000 Homes & Businesses
Fiber Feeder/Distribution	\$25,961,711	\$47,440,153	\$53,308,812	\$135,030,623
Fiber Service Drops	\$5,213,824	\$14,607,806	\$14,607,806	\$42,781,288
Equipment & Implementation	\$5,281,300	\$10,400,980	\$10,877,080	\$23,944,780
Building Improvements	\$550,000	\$800,000	\$800,000	\$800,000
<b>Total Capital Costs</b>	<b>\$37,006,835</b>	<b>\$73,248,939</b>	<b>\$79,593,698</b>	<b>\$202,556,691</b>
Working Capital	\$14,251,061	\$16,251,061	\$17,251,061	\$24,000,000
<b>Total Investment Required</b>	<b>\$51,257,896</b>	<b>\$89,500,000</b>	<b>\$96,844,759</b>	<b>\$226,556,691</b>

# Simple Implementation Roadmap (Sample Only)



# Detailed Implementation Roadmap



# Overview of the Options

- Option 1: Fiberhood Deployment
  - City segmented into 20+ geographic fiber zones
  - Costs, number of customers and payback are known for every fiberhood
  - City solicits signups in each fiberhood
  - When a fiberhood reaches the signup rate, the City builds
  - Each zone can have a different signup rate, based on costs
  - Buildout could be limited to a certain amount each year, controlled by City
  - For example:
    - The City needs 2,000 out of 8,000 households to signup to generate enough revenue to pay back the investment
  - Estimated 3 zones per year over 4 years, 50% of the City deployed
  - The deployment could be lower or higher, based on demand
    - This creates uncertainty for deployment
    - If every zone meets the signup rate, how does the City buildout?

# Overview of the Options

- Option 2: Citywide Deployment
  - Covers the entire City
  - 9,000 homes/businesses are in FIOS territory
  - 35,000 homes/businesses are not in FIOS territory
  - City could choose whether to build to these premises now or later
  - Perhaps build to them after the other areas have been deployed
  - Magellan has modeled it both ways
  - First year includes startup activities and engineering
  - Years 2-5 include construction for non-FIOS zones
  - Years 6-7 include construction for FIOS zones (optional)

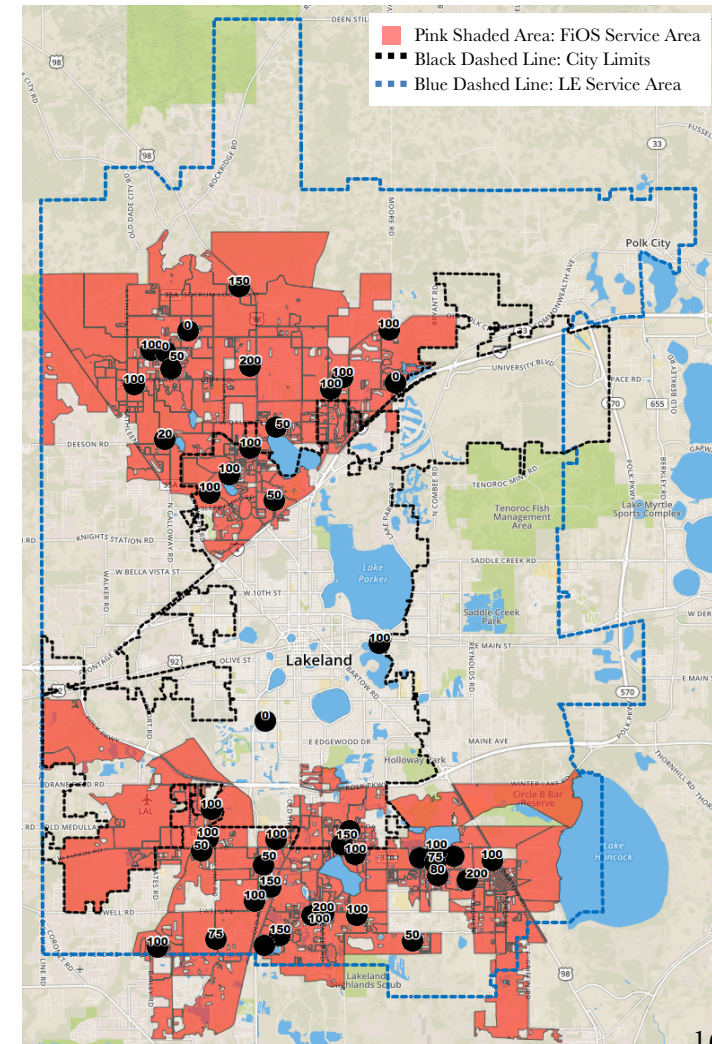


# Overview of the Options

- Option 3: Citywide & County Deployment
  - Covers City and portions of the County
    - Fiber within the City
    - Fiber in denser areas of the County
    - Wireless in less dense areas of the County
  - City can select whether to deploy in FIOS areas
    - For both the City and County
  - Wireless would not be deployed where FIOS exists
    - Not a competitive service with FIOS

# FiOS – Should the City Overbuild?

- Map illustrates FiOS service areas
  - Red shaded areas show FiOS according to FCC
  - Black dots with numbers show actual FiOS customers and their speeds from market survey
  - FiOS covers a good portion of the LE service area
    - 40,634 total customers
      - 9,011 in the City
      - 31,623 in the County
  - Risky for City to buildout in areas where FiOS is already entrenched
  - Very few cases of multiple competing FTTH networks in a single market
  - Frontier could reduce its prices since it's plant is already partly depreciated
  - Result is lower uptake for Lakeland
- Uncertain future for the FiOS network. Will Frontier sell, invest or maintain it?



# City of Lakeland Broadband Business Plan Questions

